

CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM BOARD OF ADMINISTRATION INVESTMENT COMMITTEE

MINUTES OF MEETING OPEN SESSION

November 17, 2008

The Investment Committee met on Monday, November 17, 2008 in the Lincoln Plaza North Building, Auditorium, 400 Q Street, Sacramento, California.

The meeting was called to order at approximately 10:40 a.m. and the following members were present:

George Diehr, Chair
Priya Mathur, Vice Chair
Marjorie Berte
John Chiang, represented by Terry McGuire
Rob Feckner
David Gilb, represented by Greg Beatty
Bill Lockyer
Louis F. Moret
Tony Oliveira
Anne Sheehan
Kurato Shimada
Charles Valdes

Investment Committee members excused: Henry Jones

Some items were taken out of order.

AGENDA ITEM 2 – APPROVAL OF OCTOBER 2008 MEETING MINUTES

On **MOTION** by Ms. Mathur, **SECONDED** and **CARRIED** that the October 20, 2008 Open Session minutes be approved as presented.

AGENDA ITEM 3 – POLICY SUBCOMMITTEE REPORT

Subcommittee Vice Chair Diehr presented the October 20 meeting summary.

On **MOTION** by the Subcommittee, the Investment Committee approved ratification of revisions to policies relevant to the Synthetic Enhanced Equity Strategy Portfolio. The policies revised are:

- Low Duration Fixed Income Program
- Internally Managed Global Enhanced Equity Strategies
- Development of Derivatives Strategies

At the October meeting, the Subcommittee also deliberated upon proposals for a divestment policy and proposed revision of Real Estate policies. Discussion of these items will continue at the December Subcommittee meeting.

AGENDA ITEM 4a - TOTAL FUND, Asset Allocation Update

Farouki Majeed, Senior Investment Officer, provided an update about the actual asset allocation relative to policy targets following the steep declines in equity valuations. The report included actual and policy weights and ranges for each asset class as of October 31, 2008. Global Equity, AIM, and cash are outside of their respective policy ranges. Staff will present an agenda item in December to present proposals for addressing asset allocation issues.

AGENDA ITEM 4b - TOTAL FUND, Environmental Programs Update

Anne Stausboll, Interim Chief Investment Officer; Laurie Weir, Portfolio Manager-Real Estate; Eric Baggesen, Senior Investment Officer-Global Equity; John Greenwood, Portfolio Manager-AIM; and Farouki Majeed, Senior Investment Officer-Asset Allocation, presented the item.

Also available for comment were:

- Mark Nydam, PCG Asset Management (AIM clean technology partner)
- Deborah Cloutier, JDM Associates (Real Estate energy consultant)

Staff provided a presentation on the environmental programs and initiatives, including:

- Leadership participation in numerous investor coalitions
- Real Estate energy efficiency and green fund
- Global Equity external environmental equity managers
- Corporate Governance environmental strategies
- Alternative Investment Management clean energy and technology program update
- Inflation-Linked Asset Class infrastructure investment policy
- Cross-Asset Class Initiative Investor Network on Climate Risk (INCR) Manager Survey on the use of environmental factors in investment decision-making

In conclusion, staff reported significant progress was made across the portfolio, staff will continue to work collaboratively (both internally and externally) to identify and act upon environmentally-related risks and opportunities, and staff will continue to update the Committee.

The Committee provided input for future reporting and feedback for consideration as the environmental programs progress.

AGENDA ITEM 4c - TOTAL FUND, Investment Office Technology Update

Matt Flynn, Division Chief-Operations, Performance and Technology; John Saxon, Division Chief-Innovation and Implementation Services Division; and Martyn Greene, Chief Technologist, Investment Technology Support Unit (ITSU), presented the item.

Staff provided an update on the implementation of the ITSU, which was formed in spring 2008 using a combination of existing and new IT resources. The ITSU was established within ITSB to provide specialized technical support for the Investment Office.

Updates were also provided regarding mitigation measures taken following Wilshire Associates' findings related to Internal Equity Investment Program technology system inefficiencies and master custodian service delivery improvements.

An update will be provided in early 2009 and will include presentation of a long-term technology strategy.

AGENDA ITEM 5a – REAL ESTATE, Housing Program Update

Ted Eliopoulos, Senior Investment Officer; Randy Pottle, Senior Portfolio Manager; and Bob Langhi, Portfolio Manager, presented the item. Nori Gerardo Lietz, PCA-Real Estate Advisors, was available to respond to questions from the Committee.

Staff provided a Housing Program update, including a portfolio profile for 1992-2006; a review and update of the program restructuring plan since 2007; a March 31, 2008 program valuation; and market conditions and the negative Housing Program performance.

Geoff Le Plastrier, Le Plastrier Development Consulting, provided a Housing Program overview, including completed projects performance, CalPERS' commitments to housing partners, housing partners commitments to projects, current investment exposure, and impact of declining investment values.

AGENDA ITEM 6 – ALTERNATIVE INVESTMENT MANAGEMENT (AIM) PROGRAM

There were no items to report.

AGENDA ITEM 7a – INFLATION-LINKED ASSET CLASS (ILAC), Implementation Update

The Committee accepted the information ILAC update.

AGENDA ITEM 8a – GLOBAL FIXED INCOME, Selection of High Yield Fixed Income Manager

On **MOTION** by Ms. Mathur, **SECONDED** and **CARRIED** to approve ING Investment Management for inclusion in the External High Yield Managers Spring-Fed Pool.

AGENDA ITEM 9 – GLOBAL EQUITY

There were no items to report.

AGENDA ITEM 10a – GLOBAL EQUITY – CORPORATE GOVERNANCE, Institutional Investor Response to Market Conditions

Eric Baggesen, Senior Investment Officer, and Bill McGrew, Portfolio Manager, presented the item.

Staff pointed out aspects of market conditions that demonstrate the inadequacy of a variety of market structures and explained the process staff has undertaken to develop a position on future market reforms. Staff is consulting with Tom Lussier, CalPERS' Federal Legislative Liaison, regarding this issue and will provide a detailed agenda item at the December meeting.

AGENDA ITEM 11 – SUPPLEMENTAL INCOME PLANS (SIP)

There were no items to report.

AGENDA ITEM 12 – CHIEF INVESTMENT OFFICER'S / CHIEF OPERATING INVESTMENT OFFICER'S REPORT

a. Consolidated Investment Activity Report

Anne Stausboll, Interim Chief Investment Officer, presented the item.

The Committee accepted the Consolidated Investment Activity Report. The total market value of the fund as of September 30, 2008 was approximately \$213.5 billion and the total book value was approximately \$206.0 billion.

b. Chief Operating Investment Officer's Status Report

The Committee accepted the Chief Operating Investment Officer's Status Report.

c. 2008 Annual Agenda Item Calendar

The Committee accepted the 2008 Annual Agenda Item Calendar as presented.

AGENDA ITEM 13 – DRAFT DECEMBER 2008 AGENDA

The Committee accepted the proposed December 15, 2008 agenda, as presented.

AGENDA ITEM 14 – PUBLIC COMMENT

There were no comments from the public.

The meeting recessed from 12:20 p.m. to 5:25 p.m.

AGENDA ITEM 4d – TOTAL FUND, Board's Independent Investment Consultant Contracts

The Committee accepted the information report.

The meeting was adjourned at 5:30 p.m.

The next Investment Committee meeting is scheduled for December 15, 2008 in Sacramento, California.

Kenneth W. Marzion
Interim Chief Executive Officer